ETH
Eidgenössische Technische Hochschule Zürich
Swiss Federal Institute of Technology Zurich

D MTEC
Departement Management, Technology, and Economics

Building marketing strategy:
towards new segments in a climate-sensitive world

Climate KIC Summer School, Marketing module, Zurich, 3. August 2010

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Meet the teachers

Fredrik Hacklin
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Background

- Postdoctoral researcher, D-MTEC
- PhD, management, technology and economics, ETH Zurich
- MSc, computer science, KTH Stockholm
- Visiting researcher, Stanford University
- Strategy consulting

Interests

- Novel forms of innovation and entrepreneurship
- Innovation beyond industry-boundaries
- Industry convergence

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Background

- Senior Analyst, Climate Policy and Carbon Markets, First Climate AG
- CEMS MIM, Helsinki School of Economics and WU Wien
- MSc, economics, Helsinki School of Economics
- Political advisor, European Parliament

Interests

- Climate policy and markets-based instruments
- Green innovation

Where along the process are we?

Positioning of this course module

Create customer value | **Sustain** customer value | **Capture** customer value

Marketing analysis → **Marketing strategy** → **Marketing mix** → **Customer relationships** → **Customer return**

Marketing analysis

- Research consumers and the marketplace
- Manage marketing information and customer data
- The 5 **C**s: **C**ustomer, **C**ompany, **C**ompetition, **C**ollaboration, **C**ontext

Marketing strategy

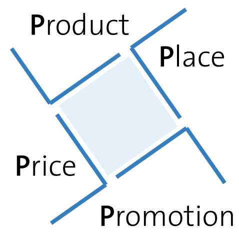
Market segmentation

Target market selection

Product and service positioning

Marketing mix

The 4 **P**s



Customer relationships

Customer acquisition

Customer retention

Customer return

- Create satisfied, loyal customers
- Capture customer lifetime value
- Increase share of market and share of customer

Emphasis of schoolbook marketing

Based on Silk (2006), Kotler & Armstrong (2006)

We will focus on the strategic part of creating value

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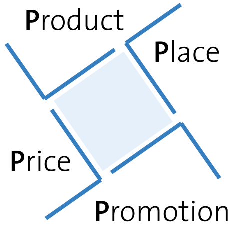
Marketing mix

The 4 **P**s



Customer relationships
- **Customer acquisition**
- **Customer retention**

Customer return
- Create satisfied, loyal customers
- Capture customer lifetime value
- Increase share of market and share of customer

Emphasis of schoolbook marketing

Today's lecture

Based on Silk (2006), Kotler & Armstrong (2006)

Building marketing strategy

Agenda

- What is Marketing?
- Value concept
- Segmentation
- Targeting
- Positioning

What is Marketing?

"Marketing is an organizational function and a set of processes for creating, communicating, and delivering **value** to customers and for managing **customer relationships** in ways that benefit the organization and its stakeholders."

American Marketing Association

AMERICAN MARKETING ASSOCIATION®

The field of marketing has evolved from an internal focus to a customer focus

The **production** concept

The **product** concept

The **selling** concept

The **marketing** concept

It is increasingly about relationships!

Building marketing strategy

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- What is Marketing?
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Value is a perceived measure

Customer value

$$\text{Value}_{\text{Perceived}} = \frac{\text{Benefit}_{\text{Perceived}}}{\text{Cost}_{\text{Perceived}}}$$

Marketing operates both with

perceived **costs** and **benefits**

A customer has specific dimensions for determining personally perceived value

Customer value

EXAMPLES

- Delivery on time
- Technological performance
- Information about product
- Soft performance

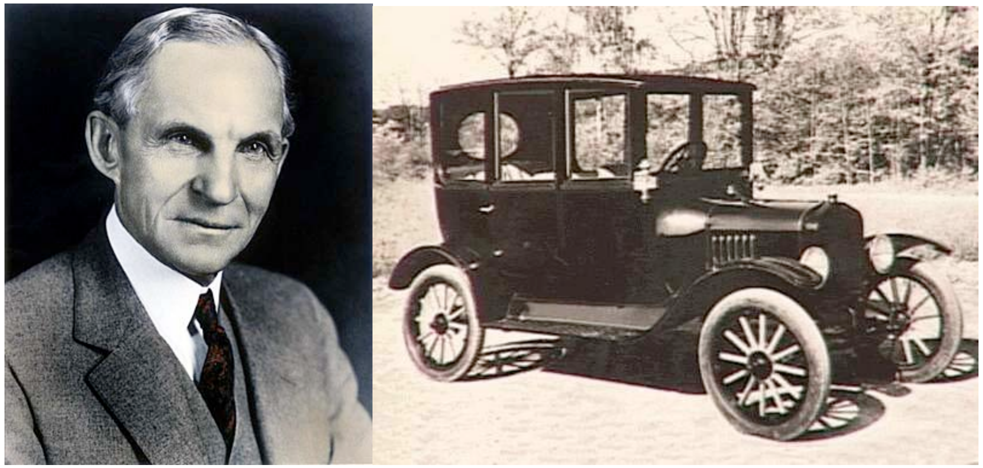
$$\text{Value}_{\text{Perceived}} = \frac{\text{Benefit}_{\text{Perceived}}}{\text{Cost}_{\text{Perceived}}}$$

The question is how to deal with this heterogeneity

Managing differences in customer value

"... you can have any color you want as long as it's black"

Henry Ford



Alternative?

What if not everyone wants a black car?

Differences in customer value

You can have any climate, as long as it’s hot!

Creating value in a Warming Climate

2° MAX

~~CO2~~

Consume less
Consumerism

Convert gases
Few financial incentives

Produce with less energy
Ownership of reductions
Low return on invesments

Produce with alternative energy
Competitiveness
against conventional energy carriers

Capture and store CO2
Early-stage technology
Storage certainty

Trading and Offsetting

Cleantech

Policy & consulting

Marketing strategy provides an alternative to "Ford's approach"

1 Segmentation

- Divide up the market into segments

2 Targeting

- Select target segments

3 Positioning

- Customize the product offer for a specific segment

Marketing strategy

Market segmentation

Target market selection

Product and service positioning

Building marketing strategy

Agenda

- What is Marketing?
- Value concept

1 Segmentation
2 Targeting
3 Positioning

Segmentation is about understanding needs

1

DEFINITION

Segment

Subgroup of people or organizations sharing one or more characteristics which cause them to have similar product needs

Segmentation

Dividing the market along different customer needs

Marketing strategy

Market segmentation

Target market selection

Product and service positioning

Hence, different needs form different segments

1

Differences in customer value

Family car segment

Male single segment

Segmentation allows for more differentiated marketing

1

Why segment a market?

- Mass marketing is complex and costly
- Adjust to different customer preferences
- Create a group of consumers with homogenous preferences *within* the segment which reacts similarly to a given marketing strategy
- Allow for price discrimination

Segments need to fulfill specific criteria

1

Requirements for successful segmentation

Identifiable
Segments are empirically detectable

Substantial
Segments are large enough to be profitable

Accessible
Segments are reachable through communication and distribution channels

Unique
Segments must respond differently to different stimuli

Durable
Segments must be relatively stable to minimize the cost of frequent changes

What measures are we talking about?

EXAMPLES

1 Segmentation variables for consumer markets

Geographic

- World region
- Country region
- Population size
- Density
- Climate

Demographic

- Age
- Gender
- Family size
- Family life-cycle
- Income
- Occupation
- Education
- Religion
- Race
- Generation
- Nationality

Psychographic

- Social class
- Lifestyle
- Personality

Behavioral

- Occasions
- Benefits
- User status
- User rates
- Loyalty status
- Readiness stage
- Attitude towards product

Kotler & Armstrong (2006)

Working with the ranges opens the option space

1 Segmentation based on customer behavior

Behavioral

EXAMPLE

User status	non-user			user
User rate	light user	medium user		heavy user
Benefits sought	performance-oriented			price-oriented
Loyalty status	none	moderate	strong	total
Attitude toward product	unsatisfied	satisfied		delighted

\- +

We need specific proxies for measuring customer value

1 Segmentation process

Identify customer value

Understand the benefits that customers seek

Segment the market

Segment the market and develop prototypical customer profiles based on customer benefits

Find proxies

Find the observable variables (e.g., geography, demographics, lifestyle) that most likely identify membership of specific segments

Segmentation refers to dividing the market along groups of similar product needs

1

Summary

- A market segment is a subgroup of people or organizations sharing one or more characteristics which cause them to have similar product needs
- Segmentation means dividing the market along different customer needs

Climate Neutral Services

- Emit a tonne of CO_2 and pay for the reduction of the CO_2 somewhere else
  - Offseting of flights
  - Climate neutral gas (domestic use)
  - Climate neutral supply chains
  - Climate neutral chocolate (!)
  - Offseting of corporate footprint (banks)

- Uninformed customer: why to buy a tonne of CO_2?
- Informed customer: carbon with specific characteristics!

- Offseting products:
  - VER – charismatic carbon
  - VER – bulk carbon
  - CER – certified by the UN
  - EUA – tighten the carbon cap in the EU-ETS

Marketing in a Climate Business

Why segment a market?

- Mass marketing is complex and costly
- Adjust to different customer preferences
- Create a group of consumers with homogenous preferences *within* the segment which reacts similarly to a given marketing strategy
- Allow for price discrimination

Yes. Done rarely.

Yes. First meeting:

find out customer preferences.

Yes. Replicate

service offering or „story behind carbon“.

Yes. CO_2 is not just CO_2:

- production costs

- willingness to pay

Segmentation of Carbon Consumers

1 Segmentation variables for consumer markets

Geographic		World region; Country region; Population size; Density; Climate
Demographic		Age; Gender; Family size; Family life-cycle; Income; Occupation; Education; Religion; Race; Generation; Nationality
Psychographic		Social class; Lifestyle; Personality
Behavioral		Occasions; Benefits; User status; User rates; Loyalty status; Readiness stage; Attitude towards product

Kotler & Armstrong (2006)

Building marketing strategy

Agenda

- What is Marketing?
- Value concept

1. Segmentation
2. Targeting
3. Positioning

Next, we need a target!

DEFINITION

2

Target market

A set of buyers sharing common needs or characteristics that the company decides to serve

Marketing strategy

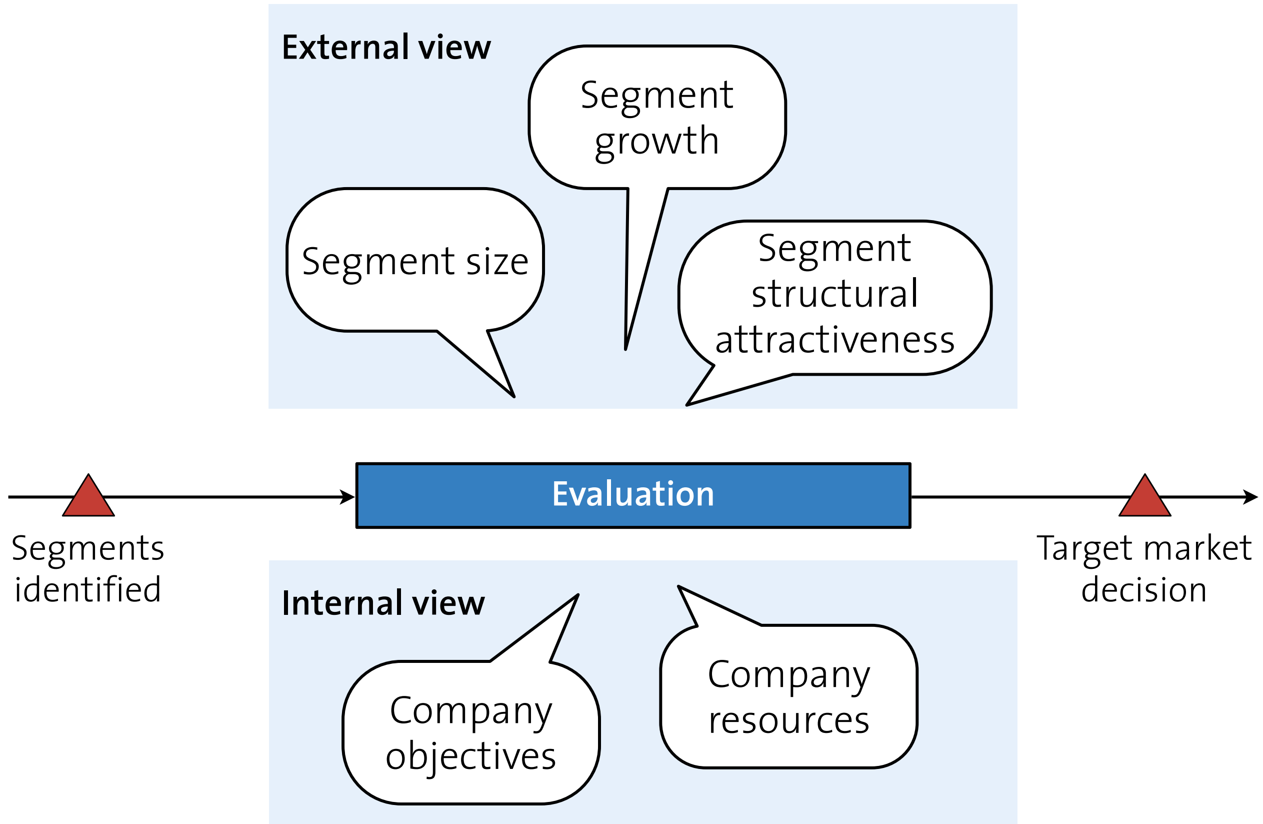
- Market segmentation
- **Target market selection**
- Product and service positioning

Kotler & Armstrong (2006)

Choosing the right target market is a key strategic issue

2

The rationale behind target market selection



Targeting is a key strategic decision process and needs to be based on evaluating identified segments along internal and external perspectives

The outcome is about how and what to target on

2

Decision outcome		Example
Differentiated	segmented marketing	NOKIA Connecting People
Undifferentiated	mass marketing	Coca-Cola
Concentrated	niche marketing	Left Handed Golf www.lefthandedgolf.co.uk

Target market decision

Marketing strategy

- Market segmentation
- Target market selection
- Product and service positioning

Different segments need to be weighed against others

2

Key questions for selecting target segments

- Does the target segment want the perceived value that my product is trying to deliver more than other segments?
- How can the segment be reached?
- And how quickly?
- How big is the segment?

Targeting in a Climate Business

EXAMPLES

Decision outcome		Example
Differentiated	segmented marketing	co2balance.com
Undifferentiated	mass marketing	myclimate Protect our planet
Concentrated	niche marketing	firstclimate

Building marketing strategy

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3. Positioning

Once the target is chosen, positioning is needed

3

Customizing the product offer for a specific segment

- Why should a member of the target segment buy my product or service rather than my **competitor's**?
- What are the unique **differentiating** characteristics of my product or service as **perceived** by members of the target segment(s)?

Configure your marketing mix to customize your product

Marketing strategy

Market segmentation

Target market selection

Product and service positioning

Positioning forms the basis for the marketing mix

3

Create customer value | **Sustain** customer value | **Capture** customer value

Marketing analysis → **Marketing strategy** → **Marketing mix** → **Customer relationships** → **Customer return**

Marketing analysis

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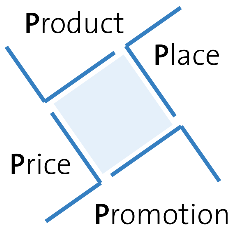
Marketing strategy

Market segmentation
↓
Target market selection
↓
Product and service positioning

Marketing mix

The 4 **P**s



Customer relationships

Customer acquisition
↓
Customer retention

Customer return

- Create satisfied, loyal customers
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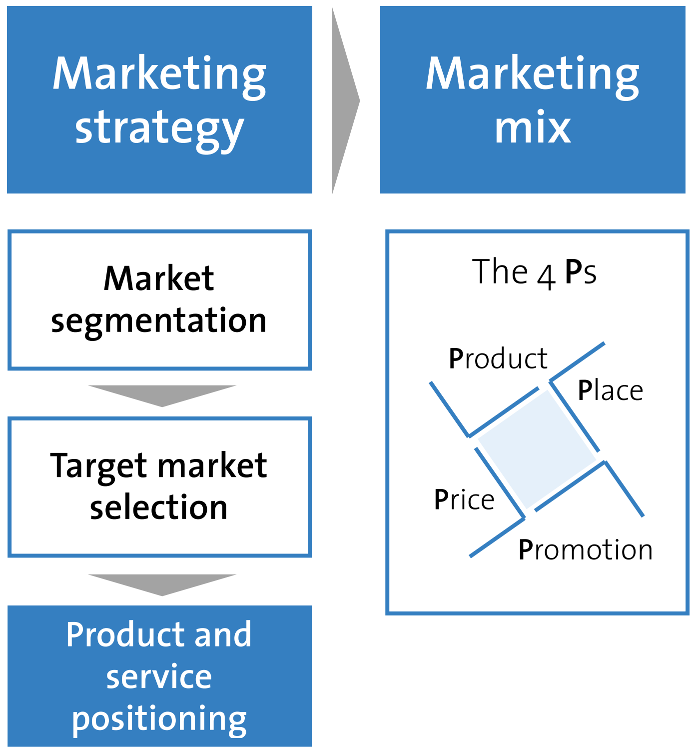
- Increase share of market and share of customer

Based on Silk (2006), Kotler & Armstrong (2006)

Positioning forms the basis for the marketing mix

3



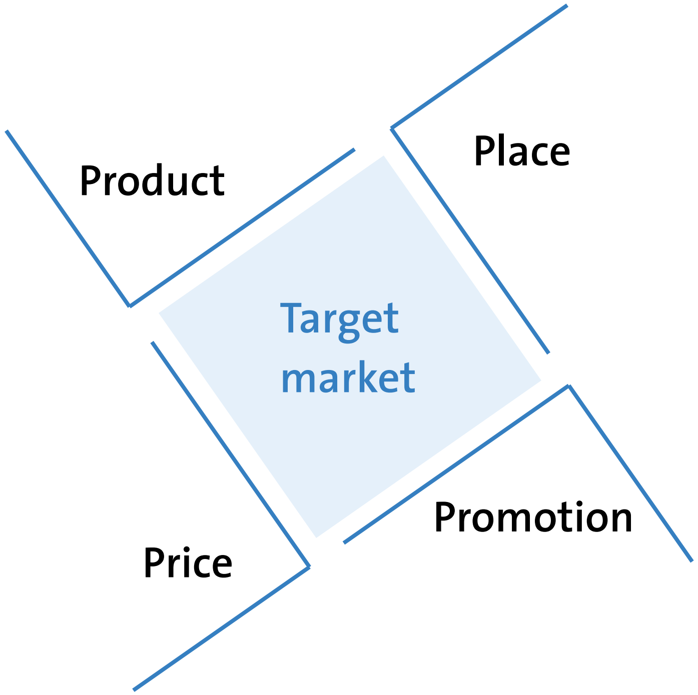
The positioning decision forms the basis for configuring the marketing mix

Based on Silk (2006), Kotler & Armstrong (2006)

Positioning is the competitive game

3

Marketing mix: the competitive dimensions of Marketing



"The marketer as a mixer of ingredients who actively manipulates Marketing mix variables to make the customer buy" (Culliton, 1948)

- A "recipe" for successful Marketing
- Describes the content of Marketing activities
- The set of tools the firm uses to reach Marketing objectives (Kotler)

The type of good gives first ideas on how to position

3 Generic positioning approaches

Type of goods

Marketing considerations

	Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, planning and shopping effort, brand comparison on price, quality, style	Strong brand preference, loyalty, special purchase effort, little brand comparison, low price sensitivity	Little product awareness and knowledge (or little/ even negative interest)
Price	Low price	Higher price	High price	Varies
Place	Widespread, convenient locations	Selective distribution in fewer outlets	Exclusive in only one or few outlets per market area	Varies
Promotion	Mass promotion by producer	Advertising and personal selling by producer and resellers	More carefully targeted promotion by both producer and reseller	Aggressive, personal selling by producer and resellers
Examples	*Toothpaste, magazines*	*TV, furniture, clothing*	*Luxury goods, such as Rolex or crystal*	*Life insurance, blood donations*

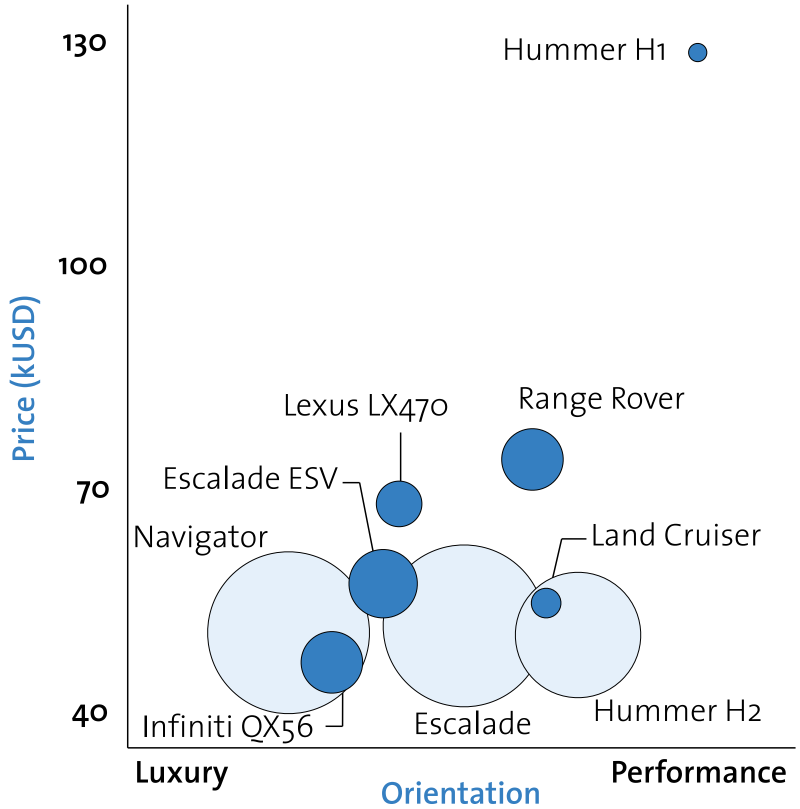
There are specific methods for facilitating positioning

3

TOOLS

Positioning map
Market of large luxury SUVs[1]

EXAMPLE



Positioning statement
Specific large luxury SUV[1]

EXAMPLE

Porsche Cayenne is **the only real sports car**

Our product/brand — *(single most important claim)*

among all **high-end luxury SUVs**

(competitive frame)

because **it offers individuality and performance**

(single most important support)

[1] Sports utility vehicle (SUV)

Based on Kotler & Armstrong (2006) , Silk (2006)

Positioning in a Climate Business

- Drivers:
  - coverage of the carbon credit value chain
  - origins of the carbon credits
  - origins of the service provider: NGO, private company, university spin-off...
  - price

Is it all about segmenting the consumer?

Policy-driven Segments

EXAMPLE

- Marketing of professional (non-consumer) services
  - GHG policy framework
  - market analytics
  - reduction, compliance and trading strategies
  - fund management
- Segmenting:
  - existing and expected legislation
    - EU-ETS
    - US, Japan, Australia, South Korea
- Targeting:
  - Conferences, word-of-mouth
- Positioning:
  - coverage of the carbon credit value chain
  - knowledge of regulatory framework and understanding of market
    - references

Tranched Carbon Sales

EXAMPLE

- Trached sales of securitised products
  - mother of tranched sales: US subprime mortgage products
- Suitability to consumer markets??
- Virtue to mobilise climate finance
  - Risk-return in e.g. African CDM

- Segmenting:
  - risk-return profiles of buyers
  - ultimate aim of buyer: financial, mobilisation of finance, development?
- Targeting:
  - sales of professional services
- Positioning:
  - Riskiness of tranche
  - Price of carbon

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Case: Green marketing

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Fredrik Hacklin, ETH Zurich, **Tuomas Rautanen**, First Climate

Case 1: Green car

1. Identify and describe segments from a green car manufacturer perspective
2. Develop conceptual approach for targeting these segments

Case 2: Green electricity

1. Identify and describe segments from a green electricity provider's perspective
2. Develop conceptual approach for targeting these segments

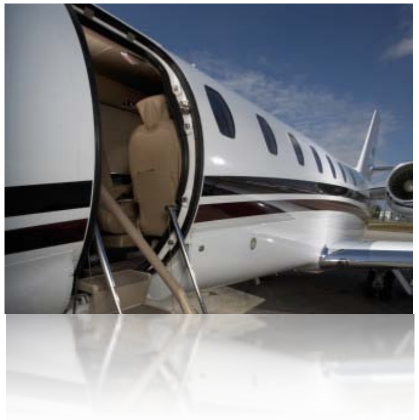
Discussion: bottom line climate impact

	Positive impact	Negative impact
		
		

We need to understand, segment, target and position the customer value

Summary

Value concept



Segmentation

Targeting

Positioning